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Contribution to Financial Sitrep
16 July 1985

Romania

Romania's financial situation has deteriorated in recent months, and Bucharest may need debt relief by late this year. Poor performance in hard currency trade has cut Romania's reserves [redacted] 25X1 25X1 Disruptions in industry caused by a severe winter and low energy stockpiles have depressed exports and increased imports. [redacted] 25X1 The US Embassy in Bucharest reports increasingly frequent complaints from Western firms about missed payments. [redacted] 25X1 25X1 25X1

[redacted]

If Romania's payment problems continue to worsen, pressures to reschedule debt and renew IMF supervision will build. This 25X1 would be particularly galling to President Ceausescu, who was humiliated by having to reschedule in 1982 and 1983 and has [redacted]

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complained of IMF interference. Ceausescu may have no choice except to acquiesce because of the bleak economic outlook. [redacted] 25X1
[redacted] 25X1

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25X1

Poland

Poland and the Paris Club of Western creditor governments signed an accord on 15 July rescheduling approximately $12 billion in overdue debt from 1982-84 over a period of 11 years with five years grace, according to press reports. The agreement was initialed earlier this year, but formal signing was delayed when Warsaw tried to obtain new credits from the governments and failed to make required payments on arrears from the 1981 rescheduling agreement. To implement the agreement, Warsaw must now complete payments on arrears from the 1981 agreement, sign bilateral accords with individual governments and make interest payments on the rescheduled debt. 25X1

We estimate that Warsaw can cover only about half of the $900 million due to governments under the agreement this year if it continues to give priority to imports and paying bank creditors. The Poles will probably demand new credits in the bilateral negotiations, but Western governments seem reluctant to extend new loans. The Paris Club has indicated it will reassess the agreement if Poland cannot meet its obligations but, the governments probably would demand that Warsaw negotiate new rescheduling terms with the banks as well to ensure equal treatment of creditors. 25X1

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Yugoslavia

Talks between US bankers and Yugoslav officials aimed at resolving the IMF's role in monitoring Yugoslav economic performance--a major stumbling block to a multiyear rescheduling agreement--ended in New York on 13 July. [redacted] 25X1 25X1 Yugoslavs, and the IMF agreed that in lieu of another standby program after April 1986, the Fund would conduct enhanced monitoring consisting of two Article IV reviews annually. The Fund would measure Yugoslav trade and financial performance against as yet unspecified "trigger" criteria. If performance fell below these standards, Belgrade could be required to take policy action to correct the problem and possibly negotiate a new standby program with the Fund. [redacted] 25X1

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Talks with the full ICC advisory committee to reschedule $3.5 billion in debt maturing in 1985-88 are now expected to resume later this month. The key unresolved issues are interest rates and length of the rescheduling period. [redacted] 25X1

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[redacted] If Yugoslavia fails to reach an agreement with the banks before 15 August it will be not be able to draw the second tranche of its IMF standby credit. [redacted] 25X1

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Yugoslavia's hard currency account and trade deficits continue to show a sharp deterioration in comparison to 1984. The convertible currency account through April 1985 showed a deficit of $359 compared to a $31 surplus last year. The trade deficit of $521 million for the first 4 months was over three times the deficit for the same period last year. Through 10 June, exports to hard currency areas were down 3 percent and imports up 9 percent from 1984. [redacted] 25X1

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[redacted] 25X1

Four major new loans were concluded for Eastern Europe during the past month as EE borrowers took advantage at favorable interest rates offered by Western banks. The low rates are generally more indicative of high bank liquidity and lack of other good international lending opportunities than of banker enthusiasm over East European economic performance [redacted] 25X1

East Germany

East Germany received an eight-year, $600 million loan after intially asking for only $200 million-its third large oversubscription since late 1984. According to the US Embassy, the East Germans will pay .75 percentage points over LIBOR for most of the money. The syndicate is led by the Arab Banking Corporation of Bahrain and includes about 75 banks; seven US 25X1 banks reportedly will lend $50-60 million. East German Foreign Trade Bank President Polze [redacted] 25X1 [redacted] told the US Embassy that East Berlin will use the 25X1 funds to maintain reserves and boost imports form the West in 1986-90. [redacted] 25X1

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[redacted] 25X1

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Hungary

Hungary signed a $300 million dollar syndicated loan in June, cofinanced with the World Bank, and earmarked for the modernization of the petrochemical, food processing, and transportation industries. The interest rate was set at .75 percentage point over LIBOR for eight years for the commercial bank portion and 10 years for the World Bank share. Oversubscription of the commercial bank portion resulted in an additional $125 million dollar credit from Western banks with the same terms extended in the cofinancing package. The loan is part of an $800 million package that also includes a $250 million dollar Eurodollar loan provided directly by the World bank and a $125 million cofinanced yen loan from Japanese banks. 25X1

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Bulgaria

Bulgaria raised a $200 million loan, an oversubscription of its request for a $100 million club loan. National Westminister Bank and Moscow Narodny Bank are co-lead managers of the seven-year loan, which carries interest rate spreads of a .375 percentage point over LIBOR for the first four years and .50 percentage point for the remaining three years. [redacted] 25X1 [redacted] 25X1 Bulgaria's low foreign debt and financial conservatism make it a good credit risk. [redacted] 25X1

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